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SUBJECT: NEW COMPANY TO BOOST IRAQI INVESTMENT IN JORDAN

Summary

¶11. (U) After eight months of discussion and bureaucratic delay, the Rafidain Development Company, a new high-profile Iraqi investment company in Jordan was officially established in Amman on September 25. The company was organized following a February 2005 meeting between Jordan's King Abdullah and a dozen prominent Amman-based Iraqi business figures, at which the King offered incentives for investment by Iraqis in Jordan in projects targeting the Iraqi market and/or utilizing Iraqi inputs. Projects being considered include a power plant, a Dead Sea hotel, a flat glass factory, food processing factories, and a hide processing plant. Despite the good initial response, many Iraqi businessmen doubt the value to Iraq of pursuing such large projects in Jordan, as well as the company's staying power. End Summary.

Background

¶12. (U) While Jordanian-Iraqi economic and commercial relations are burgeoning, much of this activity has been concentrated in trade, financial, and real estate transactions, rather than in industrial or agricultural investment. According to official GoJ statistics, Jordanian domestic exports to Iraq grew from \$142 million in 2000 to \$517 million in 2004. In the first six months of 2005, Jordanian domestic exports to Iraq reached \$282 million; in contrast, official Jordanian imports from Iraq totaled only \$12 million. Unpublished figures provided by the GoJ Ministry of Planning show that transit trade to Iraq grew from \$49 million in 2000 to \$317.5 million in 2004. GoJ figures indicate that Iraqi direct investment (primarily real estate) in Jordan rose 12 percent in 2004, reaching \$416 million; Iraqi investment in Jordan in 2002 and 2003 was \$348 and \$371 million, respectively.

¶13. (SBU) Prior to the King's February 2005 initiative, investment in Jordanian real estate or other ventures did not provide any entitlement to Jordanian residency or other perquisites. According to press reports and meeting attendees, the King explained that he would like to strengthen the economic and commercial bonds between the two countries through long-term "win-win" job-creating investments that would benefit both. To encourage such investment, the King announced a program of tax and residency concessions to individual Iraqis investing more than \$70 thousand in such projects.

Iraqi Investment in Jordan Gets Boost

¶14. (SBU) After many months of preliminary activity and bureaucratic delay, the Rafidain company (no connection to Iraq's troubled Rafidain bank) was officially registered and elected its Board of Directors on September 24. Board members include several well-known Iraqi Sunni, Sh'ia, and Kurdish business figures, including Noaman al-Rawi (Chairman), Talal al-Gaaod (Vice-Chairman), Majid al-Sadi, Abdul Jabar al-Kubaisi, Mohammed al-Bunnia, and others.

¶15. (SBU) The initial capital base of the Rafidain company is approximately \$60 million; additional; according to Board members, additional capital will be sought by expanding the investment base and through joint venture partnerships. The company is the fruit of a high-profile February 3, 2005 meeting of Iraqi businessmen with Jordan's King Abdullah II, at which he encouraged stepped-up Iraqi direct investment in Jordan to more closely bind the two economies and satisfy the needs of the Iraqi market. The company currently has 139 individual investors, each providing between \$70 and \$700 thousand in initial capital.

Major Projects Considered - But Not For Iraq

¶6. (SBU) Al-Rawi and al-Gaaod explained to Emboff that pre-feasibility studies have been prepared by Deloitte Touche for fifteen large investment projects, varying in scope from \$5 million to hundreds of millions. Potential industrial sector projects include a \$100-\$150 million flat glass factory to be pursued in 50 percent partnership with the U.S. company Guardian Glass or with an unnamed British firm. There is currently no flat glass factory in Jordan, and, according to Talal al-Gaaod, the major glass factory in Iraq is moribund.

¶7. (SBU) Other industrial ventures being considered include ceramics, polypropylene bags, pharmaceutical plants, electrical appliance assembly, leather and wool processing (possibly using Iraqi inputs), and food, tobacco, and cigarette packaging. Non-industrial projects being considered include hotels in Amman and the Dead Sea, and a 500-Mmegawatt power plant to be built near the Iraqi border. According to al-Rawi and al-Gaaod, at GOJ urging, all but the hotels and power plant would be built at the new Ma'an industrial estate in Southern Jordan, which Rafidain would participate in developing in parallel with investors from Saudi Arabia and the United Arab Emirates.

Jordanian Concessions

¶8. (SBU) According to al-Rawi and al-Gaaod, the King promised active GOJ support for the company's investments. Al-Rawi added that the King has also promised offered a range of incentives to company investors, providing them with many of the rights enjoyed by Jordanian citizens (subject to the approval of Jordanian security authorities), including tax and regulatory treatment as Jordanian citizens, legal residency status in Jordan for the investor and his dependents, Jordanian license plates for their cars, and VIP treatment at government departments. Al-Gaood noted that the GOJ has promised to provide further incentives and concessions to the company on a project-by-project basis.

¶9. (SBU) Current investor residency requirements in Jordan specify that the investor should provide a bank guarantee for \$75,000; however, according to al-Gaaod, the Jordanian Government has agreed to accept a proven JD 50,000 (about \$70,000) minimum investment in the al-Rafidain company in lieu of the bank guarantee. Adnan al-Azab, the Director General responsible for residency at the Ministry of Interior, confirmed to Emboff that the GOJ is providing company board members with investor's passports, but cautioned that these passports will not necessarily be given to every investor in the company. He reiterated that each case would be referred to the General Intelligence Department (GID) for approval prior to granting Iraqi investors residency or investors passports.

Organizing a Management Team

¶10. (SBU) Al-Gaaod explained that the company is currently in the process of preparing its offices and recruiting the management team. The company is seeking a world-class executive to run the company regardless of nationality. The international accounting firm Deloitte Touche is the company's auditor and consultant for future projects. Al-Rawi noted that the Board of Directors is encouraging new investors in an effort to increase the company's capital, and Al-Gaood opined that the number of Iraqi investors in the company will rapidly increase to 1,000 or more soon as concrete operations get under way.

¶11. (SBU) Al-Rawi and al-Gaaod noted that the Board has decided to limit investment in the company to Iraqis and to amounts between JD 50,000 and JD 500,000 (\$70,000 and \$700,000) in reflection of the King's desire to target Iraqi investors, and "to avoid a power struggle" between large and small investors. Al Gaood called the company "a unique experience in modern corporate thinking" for Iraqi high flyers used to running their own (or family-based) companies.

Some Iraqis Are Skeptical

¶12. (SBU) While company organizers display confidence, other potential Iraqi investors are more cautious about the company's goals and prospects. Sa'ad al-Janabi, a leading Iraqi businessman and politician who was granted Jordanian citizenship by King Hussein, asked skeptically why none of these commercial projects are connected to Iraq. He described the Iraq-Jordan linkage goals as "big talk" and said that he will wait to "see the action first" before deciding whether to invest.

¶13. (SBU) Raid Rahmani, a well known medium-size Iraqi business figure, was more critical, claiming that "Iraqis need to use their money to develop projects in Iraq, not

Jordan. How else can we get rid of terrorism and insurgents?" Hassan Aldahan, a member of the Iraqi Stock Exchange, said that he will watch the company's evolution before deciding to invest: "If the board members bring in professional management, why not? But if they plan to manage the company themselves, I will stay away."

Comment

¶14. (SBU) King Abdullah's personal promotion of productive investment by Iraqi business figures in Jordan is consistent with his desire to deepen Jordanian economic and commercial ties with Iraq, while stimulating domestic job creation. However, over the eight months since his initiative, the focus of the scheme has drifted in the minds of investors and GoJ officials from commercial tie-ins to Iraq to simple profit making in Jordan. The plan has also apparently become entangled with the additional GoJ goal of promoting development in the restive southern city of Ma'an, the graveyard of earlier investment schemes.

Despite its capital, potential, and prominent leadership, the jury remains out on the prospects of the Rafidain company, which could still degenerate into little more than a back-door to Jordanian residency and tax concessions.

Note: This cable was drafted before the 11/9 Amman hotel bombings by Iraqi suicide bombers. End Note.

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